IFRS Accounting

Staff paper

Agenda reference: 10

Emerging Economies Group meeting

Date	**December 2024**
Project	**Equity Method**
Topic	**Overview of the proposals in the Exposure Draft *Equity Method of Accounting IAS 28* Investments in Associates and Joint Ventures *(revised 202x)***
Contacts	**Filippo Poli (fpoli@ifrs.org)** **Mostafa Mouit (mmouit@ifrs.org)**

Purpose of this session

- Seek EEG members views on the proposals in the Exposure Draft Equity Method of Accounting – *IAS 28 Investments in Associates and Joint Ventures (revised 202x)* that was published in September 2024 and open for comment until 20th January 2025.

Contents

Background

Background

Date	Discussion
EEG meeting December 2021	Asked for EEG members' views on the interaction of IAS 28 with Business Combinations project completed in 2008 and Consolidation project completed in 2011 and some of the application questions in the scope of the project. EEG members commented and provided feedback on the application questions.
EEG meeting October 2023	Provided EEG members with an overview of the IASB's tentative decisions on the project and asked for views on those tentative decisions, including the potential effects (costs and benefits) arising from those decisions. Overall EEG members supported the IASB's tentative decisions, with some members expressing some concerns on individual decisions.

Overview of the project

Overview of the project

Objective

- Reduce diversity in practice by answering application questions on the equity method of accounting; and
- Improve the understandability of IAS 28.

Approach

Identify application questions
- can be solved efficiently and effectively
- affected consistent application
- involves a widespread matter that occurs frequently

Identify the underlying principles

Group IAS 28 requirements:
- into topics
- identity the principle for each topic

Apply the principles to the application questions

Proposed answers in the Exposure Draft

Proposals in the Exposure Draft

Recognition and initial measurement
Changes in ownership interests

Obtaining significant influence or joint control

Application question	IASB's proposed answer
• How does an investor or joint venturer initially measure the cost of an associate or joint venture? • What does cost include? • Does the investor or joint venturer include the deferred tax effects related to its share of the fair value of the associate's or joint venture's identifiable assets and liabilities?	• Measure cost at the fair value of the consideration transferred, including the fair value of any previously held ownership interest. • Recognise contingent consideration as part of the consideration transferred and measure it at fair value. • Include in the carrying amount of the investment the deferred tax effects.

Changes in ownership—purchasing an additional interest

Application question	IASB's proposed answer
How does an investor or joint venturer purchasing an additional ownership interest, *while retaining significant influence or joint control*, recognise and measure that additional ownership interest?	• Add, to the carrying amount of the investment, the additional share of the fair value of the identifiable assets and liabilities at the date of purchase. • Account for any difference between the fair value of consideration transferred and the additional share of the fair value identifiable assets and liabilities either: ○ as goodwill (included in carrying amount of the investment); or ○ as a gain from bargain purchase in profit or loss.

Changes in ownership—disposing of an ownership interest

Application question	IASB's proposed answer
How does an investor or joint venturer disposing an ownership interest, *while retaining significant influence or joint control*, measure the disposed portion of its investment?	• Measure the disposed portion as a percentage of the carrying amount of the investment at the date of disposal. • Recognise the difference between the consideration received and the disposed portion as a gain or loss in profit or loss.

Changes in ownership—other changes

Application question	IASB's proposed answer
How does an investor or joint venturer account for other changes in its ownership interest, *while retaining significant influence or joint control*?	Account for the change as if purchasing or disposing of an ownership interest.

Example

An associate issues new shares to a third party in exchange for cash. The investor's ownership interest decreases, while the investor retains significant influence.	*The investor treats the decrease in its ownership interest as a disposal and recognises a gain or loss in profit or loss for the difference between its share of the change in the associate's net assets and the disposed portion of its investment.*

Equity method procedures

Share of profit or loss and other comprehensive income

Application question	IASB's proposed answer
How does an investor or joint venturer recognise its share of profit or loss and other comprehensive income: • if its share of profit or loss and its share of other comprehensive income are both losses that equal or exceed its net investment? • if its net investment has been reduced to nil and if either its share of profit or loss or its share of other comprehensive income is a profit?	The investor or joint venturer would: • recognise its share of profit or loss and then its share of other comprehensive income. • recognise separately its share of profit or loss and its share of other comprehensive income.

Changes in ownership—losses not recognised

Application question	IASB's proposed answer
Does an investor or joint venturer that has reduced the carrying amount of its investment to nil 'catch-up' losses not recognised when purchasing an additional ownership interest?	No, an investor or joint venturer does not 'catch-up' those losses by reducing the carrying amount of the additional ownership interest.

The IASB noted that if an impairment exists, an investor would be required to apply the requirements in IAS 28 and IAS 36 *Impairment of Assets*.

Transactions with associates and joint ventures

Application question	IASB's proposed answer
How does an investor or joint venturer recognise gains or losses that arise from the sale of a subsidiary to its associate or joint venture, applying the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28?	Recognise the full gains or losses from all transactions with its associates or joint ventures.

The existing requirement in IAS 28 is to recognise gains or losses to the extent of unrelated investors' interests in the associate (for instance, an investor with a 25% ownership interest recognises 75% of gains or losses). The proposed amendment changes that requirement to require recognising full gains or losses.

The proposed amendment withdraws the amendments to IAS 28 and IFRS 10 issued in 2014, that were indefinitely deferred.

Responding to the Invitation to Comment

Do you agree with these proposals? If you disagree, please explain your suggested alternative and its rationale.

Do you have any comments on the cost and benefits of the proposals?

Subsidiaries in separate financial statements

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Subsidiaries in separate financial statements

Consolidated financial statements

- Eliminate intragroup gains or losses
- Revalue previously held interest when acquiring control
- Revalue retained interest when losing control

Parent's separate financial statements

- Do not eliminate intragroup gains or losses
- Do not revalue previously held interest under equity method
- Do not revalue retained interest kept under equity method

IAS 27 allows an entity to choose to apply the equity method to its investments in associates, joint ventures and/or subsidiaries in its separate financial statements.

The IASB decided its proposed answers to the application questions would also apply when an entity choose to apply the equity method to its subsidiaries in its separate financial statements.

Responding to the Invitation to Comment

Slide 21 summarises the IASB's proposals on subsidiaries in separate financial statements.

Questions to EEG members:

Is the use of the equity method in separate financial statements common in your jurisdiction?

Do you agree with the IASB's proposal not to introduce different versions of the equity method?

Question in the Invitation to Comment

Do you agree with these proposals, if not what comments do you have on the proposals?

Improving understandability of IAS 28

Improving understandability of IAS 28

Improving understandability

IAS 28 structure has been mostly unchanged since it was first issued. Changes to IAS 28 have been added on a piecemeal basis.

As part of the Third Agenda Consultation, the IASB decided to increase focus on the understandability of IFRS Accounting Standards.

IASB's proposals

To improve the understandability of IAS 28 in the Exposure Draft:

- the requirements have been reorder:
- topics have been grouped, following the structure of more recent IFRS Accounting Standards.

The Exposure Draft includes a table of concordance.

A supplementary document of a marked-up IAS 28 will be available on the IFRS Foundation website.

Appendix (for information)

Other proposals:

- Impairment
- Disclosures
- Transition

Impairment indicators

Application question
Does an investor or joint venturer assess a decline in the fair value of the net investment by comparing the fair value to the original purchase cost or the carrying amount at the reporting date?

IASB's proposed amendment
Compare the fair value to the carrying amount of the investment at the reporting date.

The IASB is also proposing:

- to remove the reference to 'a significant or prolonged' decline in the fair value of an investment.
- to change some of the wording in IAS 28 on impairment indicators to align with IAS 36.

The proposed amendment does not change the requirements in IAS 36 *Impairment of Assets* on how an entity measures the recoverable amount of the net investment.

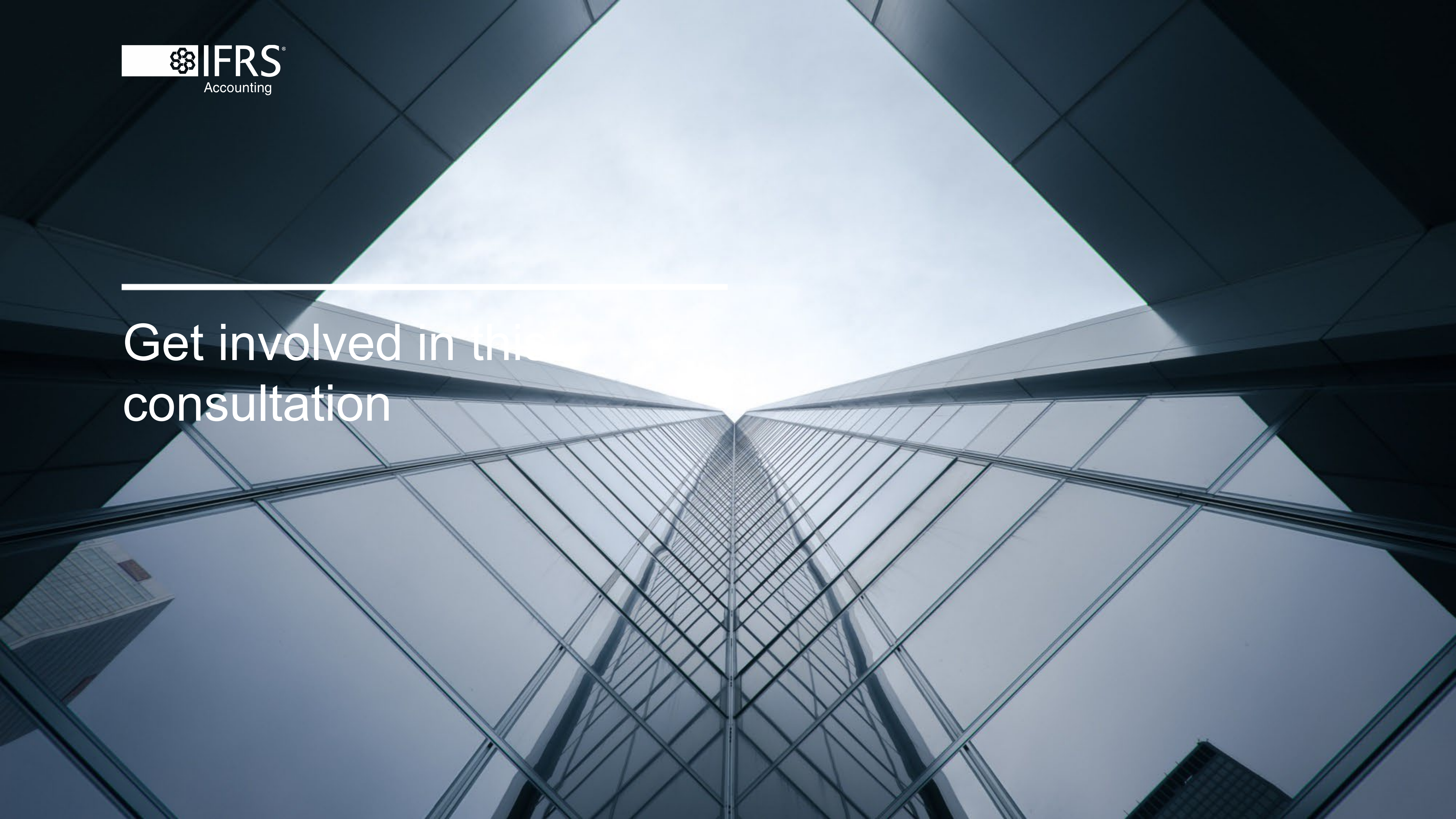
Improving disclosures

Gains or losses from other changes in ownership interest in the associate’s or joint venture’s net assets	Amount of the gains or losses
Gains and losses from transactions with associates or joint ventures	Amount of the gains or losses from ‘downstream’ transactions
Contingent consideration arrangements	Information on the nature of the arrangement, amounts recognised and changes in those amounts, and range of possible outcomes
Changes in the carrying amount of investments	Reconciliation of the opening to the closing balance of the carrying amount

Transition

Transition reliefs
The IASB is proposing reliefs to facilitate the proposals' application.

IASB's transition proposals
Apply the proposals **prospectively**, except, at transition date, recognise:
• any previously restricted portion of gains or losses from transactions with associates or joint ventures in retained earnings; and • contingent consideration at fair value as an adjustment to the carrying amount of the investment.



Get involved in this consultation

Resources on IFRS Foundation website

Snapshot: Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures (revised 202x)

Exposure Draft: Equity Method of Accounting—IAS 28 Investment in Associates and Joint Ventures (revised 202x)

Exposure Draft: Basis of Conclusion on Equity Method of Accounting—IAS 28 Investment in Associates and Joint Ventures (revised 202x)

Supplementary Document: Mark-up version of IAS 28 Investments in Associates and Joint Ventures (revised 202x)

Webcasts: Explore the Equity Method Exposure Draft

- Overview of the Exposure Draft
- Main proposals
- Supplementary proposals

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